

# The International War on Cheap Drugs

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The Bush administration has declared war on the price of patented drugs in Europe, Australia and other affluent countries. It hopes to counter efforts within the U.S. to lower domestic prices. The aim is to raise prices everywhere to U.S. levels. Regarding pharmaceuticals, the goals pursued in the Australian and all other Free Trade Agreements (FTAs) are to:

1) restructure internal markets to raise prices on patented drugs, 2) extend patent protection and data exclusivity to delay generic competition, and 3) block cheap exports to the U.S.

A feature in this campaign is doublespeak. "Competitive liberalization" means competitive restrictions, or liberalization *from* competition. "Free trade" means restricted trade, or the ability to trade freely at prices set by drug companies. "Free markets" for patented drugs means free from normal competition so that the longer competition is delayed, the "freer" the market is said to be. "Openness" means opening other countries' price setting processes to drug company influence. "Reimportation" refers to global free trade in drugs, but makes it sound like a bizarre unnatural act.

Americans are said to be burdened with paying for drug research while other affluent countries are "free riders." Investigation indicates that this is entirely false. For example, audited reports show that domestic sales alone easily pay for research in countries where substantial research takes place.<sup>1-3</sup> European countries are not "free riding" the United States, nor are U.S. citizens paying for research abroad.

The latest data show that European research teams have discovered more than their proportional share of global sales of major new drugs (new molecular entities), while U.S. teams have discovered less.<sup>4</sup> Specifically, the U.S. accounts for 51% of world sales, but it took 58% of global R&D expenditures invested in the U.S. to discover only 43% of the new molecular entities, regarded as the important new drugs for global markets.<sup>4</sup> In 2000, four other industrialized countries devoted more of their GDP to R&D for new drugs than the US.<sup>1</sup> Industry and independent sources report that budgets for drug research have been increasing steadily in Europe, with some countries having a more rapid increase than the U.S.<sup>1,5</sup> The most objective research on corporate R&D in the United States reports that about 10 percent of domestic sales is devoted to R&D, not the much higher figures cited by industry leaders.<sup>6</sup>

Studies show that the gap between U.S. and foreign drug prices is widening. This is, however, due to pharmaceutical firms raising their U.S. prices rather than European countries lowering theirs.<sup>7,8</sup> Drug prices could be substantially lower yet still cover research costs and allow a healthy profit.

## The Bain report

The recent, widely cited Bain report supported by the pharmaceutical industry claims to document the "high cost of Eu-

rope's free ride."<sup>9</sup> The American Association of Retired Persons has sent out a summary to millions of patients.<sup>10</sup> Yet the report contains almost no facts and has no references. Without evidence, it portrays Europe as a "free rider" that will suffer from less drug innovation and "higher morbidity and mortality from diseases that could be treated with innovative drugs – if they were more readily available in Europe." Yet morbidity and mortality are lower than in the United States and the report provides no evidence that therapeutically beneficial drugs are less available in Europe. Some new drugs may not be marketed, however, it must be remembered that most newly approved drugs are variations on existing drugs. They are more expensive but are not more effective.

The Bain report does not mention that proportionately more major drugs are discovered in Europe, nor that most new drugs have little added benefits to patients. The Bain report's model claims to show Germans are becoming worse off, but it presents no data and hides many suspect assumptions inside its general graphs. Rather, the "free rider model" and the report are based on a new premise of industry-sponsored reports: *the more drugs people take, the healthier they will be, and the more they pay for them, the better off a country will be.*

## Conclusion

The pharmaceutical industry will not disclose data on costs and yet is highly subsidized by a dependent public. Greater transparency should be a condition for governmental support. Winning the Bush war on drug prices in Europe, Canada, Australia and other affluent countries would only result in further profits to the pharmaceutical companies. These same companies have contributed millions to the re-election funds of President Bush and the leading Republican members of the U.S. Senate and House of Representatives. Yet policy makers in Europe, the U.S. and Australia appear to willingly accept claims from industry sources as facts.

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